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TOY MANUFACTURERS
OF AMERICA

FINANCIAL AND OPERATING RATIO REPORT

1984

PREPARED BY PROFIT PLANNING GROUP
1877 BROADWAY, SUITE 501
BOULDER, COLORADO 80302

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1984 FINANCIAL AND OPERATING RATIO REPORT

PREPARED BY

Ms. Jamie G. Didion
Dr. Albert D. Bates
Profit Planning Group
934 Pearl Street
Boulder, Colorado 80302

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EXECUTIVE SUMMARY

The 1984 TMA Financial and Operating Ratio Report is designed to provide an insight into the financial structure of the companies in this industry. In addition, it also provides some guidelines and suggestions as to how a toy manufacturer can improve its financial performance.

The brief discussion below highlights the performance of the typical manufacturer as well as that of the high performance companies in TMA.

FINANCIAL RESULTS

Overall, TMA members surveyed showed a 6.8% Return on Assets, and a 15.7% Return on Net Worth (owner's equity).

Gross margin was typically 39.9 percent of sales. Operating expenses totalled 31.5 percent, with payroll comprising the single largest expense category (13% of sales). Operating profit was 8.4 percent and net profit after taxes was equal to 3.7 percent.

Accounts receivable accounted for approximately 33 percent of total assets and inventory made up another 28 percent.

TMA members turned over their inventory 4.1 times per year. The average collection period was typically 62 days. Total asset turnover was 1.8 times.

Employee productivity was $110,120 as measured by the sales per employee ratio. Sales per salesperson was $4,178,080.

HIGH PROFIT COMPANIES

High performance firms achieved a 43.2 percent Return on Net Worth. They also managed a 20.9 percent Return on Total Assets. This high profit group consists of the top 25 percent of TMA members based on Return on Assets and exhibits financial performance significantly above the typical company.

Three major factors divided the winners from the losers in this analysis. First was the fact that high profit companies earned a 48.4 percent gross margin, over 8 percentage points above normal. Secondly, this elite group had better inventory management, as exhibited by their inventory turnover (5.7 times), and sales dollars generated per dollar invested in inventory ($11.30). Finally, the third factor was their ability to manage accounts receivable better; the average collection period for this group was just 52 days.

A more detailed analysis of these factors can be found in the body of this report.

Note: The results of this report are based on the financial information provided by 60 members of TMA.

STRATEGIC PROFIT MODEL

Stockholders or company owners take the risk of whether a business can earn a profit and sustain its profit performance over the years. The basic test of a company's profit performance is not simply how much profit it earns, but rather how much profit is earned relative to how much owner's equity (capital) is invested.

The Strategic Profit Model (SPM) uses the Return on Net Worth ratio to measure the amount of profit a company makes relative to the amount of money the owners have invested. The SPM for the industry provides the typical results or a standard to which a firm can compare its performance.

The SPM shows that there are three ways to improve Return on Net Worth. These include changing Profit Margin, Asset Turnover, and/or Financial Leverage. By effectively managing any one of these three areas a firm may improve its Return on Net Worth.

PROFIT MARGIN = Net Profit/Net Sales X 100%

Profit Margin relates profit to sales and is the first component of the SPM that a firm can control. This is the bottom-line measure of income statement performance. Without a positive profit, obviously, a positive RONW is not possible. In 1984, TMA members typically achieved a 3.7 percent profit margin or 3.7¢ profit for each $1.00 in sales.

ASSET TURNOVER = Net Sales/Total Assets

Asset Turnover is the sales volume generated for each dollar of total assets. This ratio measures the productivity of assets employed in a business. Typical firms had an asset turnover of 1.8 times. This means that $1.80 in sales were generated for each $1.00 invested in assets.

RETURN ON ASSETS = Net Profit/Total Assets X 100%

Multiplying Profit Margin times Asset Turnover also yields Return on Assets. This ratio measures the profitability of assets employed in a business.

Pre-tax ROA is best compared with the annual interest rate on borrowed funds. In 1984, when the prime interest rate varied from 11 to 13 percent, TMA members achieved a pre-tax ROA of 10.3 percent; 6.8 percent after-tax. To be successful, a business must earn a higher pre-tax ROA than the annual interest rate paid on debt.

Profit Model Ratios	All Firms	High Profit Firms	Publicly Held Firms	Privately Held Firms
Profit Margin Net Profit/Net Sales	3.7%	9.5%	3.9%	3.5%
Asset Turnover Net Sales/Total Assets	1.8	2.2	1.7	1.9
Return on Assets Net Profit/Total Assets	6.8%	20.9%	6.6%	6.7%
Financial Leverage Total Assets/Net Worth	2.3	2.1	2.2	2.4
Return on Net Worth Net Profit/Net Worth	15.7%	43.2%	14.6%	16.6%

FINANCIAL LEVERAGE = Total Assets/Net Worth

The final component of the Profit Model which a company can control is Financial Leverage. Leverage measures the extent to which a company depends on outside financing for capital requirements. TMA members typically leveraged their equity 2.3 times. This means that the owners invested $1.00 to produce $2.30 in total assets. The remaining $1.30 was provided by outside creditors.

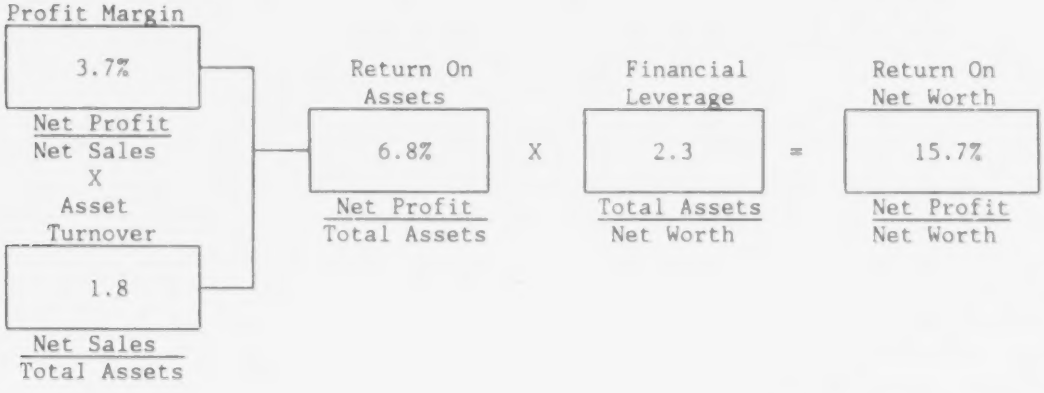
Most financial analysts agree that a Financial Leverage of 2.0 times is well within reason. Bankers may tolerate ratios as high as 2.5 times. However, a leverage ratio of 3.0 times is a definite danger signal.

RETURN ON NET WORTH = Net Profit/Net Worth X 100%

Return on Net Worth is the Return on Investment ratio which incorporates owners' equity. It may also be calculated by multiplying Return on Assets by Financial Leverage. To be successful in the long run, business owners should earn a 25% Return on Net Worth.

Considering all firms, TMA members achieved a 15.7% Return on Net Worth. High Profit companies, however, managed to generate an impressive 43.2 percent return.

STRATEGIC PROFIT MODEL--A Graphic Presentation



Sales Volume			
Under $7 Mil	$7 Mil to $35 Mil	Over $35 Mil	Profit Model Ratios
3.0%	3.9	3.6	Profit Margin
2.5	1.1	1.9	Asset Turnover
7.5%	4.3%	6.9%	Return on Assets
2.5	1.8	2.3	Financial Leverage
18.8%	7.8%	16.6%	Return on Net Worth

COMPOSITE INCOME STATEMENT

COST OF GOODS SOLD & GROSS PROFIT

Cost of Goods Sold is, by far, the largest expense in the income statement. COGS is deducted from sales to determine gross profit. Gross profit margin, then, is the first measure of profitability and considers all expenses related to the cost of making the products sold. To be successful a company must earn enough gross profit to cover all the other expenses of a business and earn a reasonable net profit as well.

PAYROLL

Total payroll expense, including salaries, wages, commissions, and bonuses, payroll taxes, and employee benefits, is the largest operating expense category a firm faces. Payroll expense generally ranges from 9 to 15 percent of net sales or 30 to 45 percent of the total operating expenses.

	All Firms	High Profit Firms	Publicly Held Firms	Privately Held Firms
Gross Sales	104.4%	103.7%	104.2%	104.4%
Returns and Allowances	3.0	2.3	2.6	3.1
Discounts	1.4	1.4	1.6	1.3
Total Deductions	4.4	3.7	4.2	4.4
Net Sales	100.0	100.0	100.0	100.0
Cost of Goods Sold	60.1	51.6	63.8	59.4
Gross Profit	39.9	48.4	36.2	40.6
Operating Expenses				
Admin. Salaries & Wages	4.5	4.3	3.6	4.8
Sales Salaries & Commissions	4.3	4.9	2.5	4.7
All Other Payroll	2.2	2.1	1.2	2.2
Payroll Taxes & Benefits	2.2	2.0	1.8	2.2
Advertising	5.0	5.7	7.4	5.3
Research & Development	.8	.8	.6	1.3
Utilities & Telephone	.9	.7	.6	1.1
Occupancy Expenses	2.1	1.6	1.5	2.2
Bad Debt Losses	.4	.3	.5	.4
All Other Operating Expenses	9.1	9.0	6.6	8.3
Total Operating Expenses	31.5	31.4	26.3	32.5
Profit From Operations	8.4	17.0	9.9	8.1
Other Income:				
Royalty Income	.1	.0	.1	.0
Other Income	.4	.5	.6	.4
Other Expenses:				
Interest Expense	2.2	1.1	2.3	2.3
Royalty Expense	1.0	1.2	1.5	1.0
Other Expenses	.0	.0	.7	.0
Net Profit Before Taxes	5.7	15.2	6.1	5.2
Income Taxes	2.0	5.7	2.2	1.7
Net Profit After Taxes	3.7%	9.5%	3.9%	3.5%

INTEREST EXPENSE

This expense is the total amount of interest paid on debt during the year. It may also include other finance charges, such as loan fees. Industry leaders continue to have lower interest expense due to their high profitability and diminished need to borrow capital.

HIGH PROFIT MANUFACTURERS

The largest improvement area among high profit companies last year was the 3.1 percentage point increase in gross margin. In an improving economy, customers are slightly less price conscious and many businesses are able to charge closer to full value for the products they sell. Notice that these firms achieved a pre-tax profit that was over 9 percentage points greater than the typical firm. However, they shared a good portion of those profits with the U.S. Government.

Sales Volume			
Under $7 Mil	$7 Mil to $35 Mil	Over $35 Mil	
104.7%	103.3%	105.0%	Gross Sales
4.3	1.9	3.4	Returns & Allowances
.4	1.4	1.6	Discounts
4.7	3.3	5.0	Total Deductions
100.0	100.0	100.0	Net Sales
59.0	63.8	55.5	Cost of Goods Sold
41.0	36.2	44.5	Gross Profit
			Operating Expenses
6.4	4.0	3.3	Admin. Salaries & Wages
5.4	3.9	1.9	Sales Salaries & Comm.
1.8	2.0	1.8	All Other Payroll
2.4	2.2	1.5	Payroll Taxes & Benefit
4.1	3.6	11.5	Advertising
.6	.6	1.7	Research & Development
1.1	-.9	.7	Utilities & Telephone
2.2	2.0	1.7	Occupancy Expenses
.6	.4	.4	Bad Debt Losses
10.4	9.8	8.4	All Other Operating Exp
35.0	29.4	33.1	Total Operating Exp
6.0	6.8	11.4	Profit From Operations
			Other Income:
.0	.0	.7	Royalty Income
.4	1.0	.3	Other Income
			Other Expenses:
1.1	2.4	2.4	Interest Expense
.0	1.0	4.1	Royalty Expense
.0	.0	.5	Other Expenses
5.3	4.4	5.4	Net Profit Before Taxes
2.3	.5	1.8	Income Taxes
3.0%	3.9%	3.6%	Net Profit After Taxes

COMPOSITE BALANCE SHEET

Assets

The wealth of information on the balance sheet is often not fully appreciated by many executives. Because it changes slowly over time, the balance sheet is not as dynamic and exciting as the income statement. It does not record the total flows into or out of assets, liabilities, and owners' equity during a period; but rather reports a company's financial structure at a specific moment in time.

Current assets are those assets that will be converted into cash during one operating cycle (one fiscal year). When considering assets that will improve ROI performance, a company need only concern itself with two issues, inventory and accounts receivable.

INVENTORY

When a company produces merchandise, its inventory account is increased by the cost of the goods. This cost is kept in inventory until the items are sold and delivered to customers. At this time, it is removed from the balance sheet and charged to the Cost of Goods Sold expense.

Products must be produced and held in inventory before they are sold. The longer the holding period, the larger the inventory. When materials are purchased on credit, the liability for the amount of goods bought is recorded in Accounts Payable. The cost is also recorded in an inventory account and both the asset (inventory) and the liability accounts (accounts payable) increase the same amount.

Inventory ranges from 20 to 40 percent of total assets for most TMA members; the typical figure is 28 percent. Therefore, changes to improve inventory management will have a major impact on overall asset turnover and will consequently increase ROI.

ACCOUNTS RECEIVABLE

Accounts receivable commonly ranges from 20 to 35 percent of total assets among the TMA members surveyed. The typical manufacturer invests 33 percent of its asset dollars in accounts receivable. Consequently, controlling accounts receivable can be a key factor in improving overall asset turnover.

Notice that accounts receivable and inventory combined comprise over one-half of total assets. Therefore, if you can effectively manage these two categories, you can make a major impact on profitability.

Composite Balance Sheet	All Firms	High Profit Firms	Publicly Held Firms	Privately Held Firms
Assets				
Current Assets				
Cash & Securities	9.6%	19.4%	9.4%	9.1%
Accounts Receivable	33.2	32.4	30.5	31.1
Inventory	28.4	22.9	23.1	29.7
Other Current Assets	12.1	12.2	12.0	14.0
Total Current Assets	83.3	86.9	75.0	83.9
Fixed Assets	16.6	13.0	24.4	16.1
Total Tangible Assets	99.9	99.9	99.4	100.0
Intangible Assets	.1	.1	.6	.0
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Current Liabilities				
Accounts Payable (Trade)	12.1%	14.3%	11.1%	12.7%
Notes Payable	13.6	6.7	8.0	15.5
Other Current Liabilities	17.8	19.6	14.1	17.0
Total Current Liabilities	43.5	40.6	33.2	45.2
Long Term Debt	14.2	11.2	22.8	14.2
Net Worth	42.3	48.2	44.0	40.6
Total Liab. & Net Worth	100.0%	100.0%	100.0%	100.0%

FINANCIAL RATIO ANALYSIS

Liquidity Ratios

Always a key question is whether a business will be able to pay its liabilities when they come due. Failure to pay debts on time, of course, damages the credit rating of a business. Creditors are not owners--they don't share in the net income earned by a business. The income on their loans is limited by the interest rates they charge. As creditors, they quite properly minimize their loan risks; as limited-income investors, they must. When making decisions about extending credit to a business, most creditors consider the liquidity ratios described on this page.

CURRENT RATIO = Current Assets/Current Liabilities

The classic ratio used to test the short-term debt paying ability of a company is its current ratio. The general rule of thumb is that the current ratio should be 2.0 or higher. Most creditors are comfortable with the 2 to 1 ratio of current assets to current liabilities as a safety cushion to insure payment. Each dollar of short-term debt is then "backed-up" by two dollars of present cash or future near-term cash inflow. The "extra" dollar of current assets provides the creditor a nice margin of safety.

QUICK RATIO = (Cash + Accounts Receivable)/Current Liabilities

Inventory is many weeks or possibly months from conversion into cash. If the sale is made on credit, which is normal, there is another waiting period before the receivable is collected. In short, inventory is not nearly as liquid as other current assets; it takes a lot longer to convert inventory into cash.

The quick ratio, also called the acid test ratio, excludes inventory (and prepaid expenses). It is called the quick ratio because it includes only cash and assets which can be quickly converted into cash. A guideline for the quick ratio is 1.0.

CASH TO CURRENT LIABILITIES = Cash/Current Liabilities x 100%

Cash and Marketable Securities are obviously the most readily available assets with which to pay liabilities. Most creditors would like cash to equal at least 10 to 20 percent of current liabilities.

ACCOUNTS PAYABLE TO INVENTORY = Accounts Payable/Inventory x 100%

Businesses generally purchase inventory on credit. Some purchases are paid quickly, to take advantage of prompt payment discounts offered by suppliers. Other bills are not paid until 30 days or more after the purchase.

The accounts payable to inventory ratio measures the amount of inventory a company has that is financed by the suppliers of that inventory. For most firms, suppliers financed 42.6 percent of inventory.

Liquidity Ratios	All Firms	High Profit Firms	Publicly Held Firms	Privately Held Firms
Current Ratio	1.9	2.0	2.1	1.9
Quick Ratio	1.0	1.4	1.3	.9
Cash to Current Liabilities	22.1%	47.8%	28.3%	20.1%
Accounts Payable to Inventory	42.6%	62.4%	47.0%	42.8%
Earning Power Ratios				
Earnings Before Interest & Taxes To Total Assets	14.3%	35.9%	14.3%	14.3%
Times Interest Earned	3.6	14.8	3.7	3.3

Earning Power Ratios

EBIT TO TOTAL ASSETS = Earnings Before Interest and Taxes/Total Assets x 100%

EBIT to Total Assets is an important ROI ratio that provides a profit analysis based on operating earnings, before interest and income taxes. This ratio is compared with a company's annual interest rate on borrowed funds. If a company's EBIT to Total Assets ratio is higher than the interest rate it pays on debt, there is a favorable "spread" between the two.

In a poor year, a company's ratio may be less than its annual interest rate. In this situation, the low EBIT to Total Assets works against the company. The use of debt only aggravates an already bad situation for many firms, since an interest rate higher than the return on operating earnings contributes to lower overall profitability. Lower net profit means a greater need for borrowed funds . . . and so the cycle goes until either operating earnings increase or the company eventually goes out of business.

TIMES INTEREST EARNED = EBIT/Interest

It's a rare business that doesn't borrow money. Interest is the charge for the use of those borrowed funds. It is not the dollar amount of interest relative to other expenses, but its special nature that requires its disclosure on the income statement. Interest is a financial cost as opposed to an operating cost. That is, interest depends on the financial policies of a business regarding borrowing, not on the business' methods of operation.

This ratio also uses profit before-tax because income taxes are computed after deducting interest expense and the ability to pay interest is not affected by income taxes. The Times Interest Earned ratio measures the extent to which earnings could decline without a financial embarrassment due to a firm's inability to meet its annual interest costs. A ratio below 1.0 means that a business is paying more in interest than it earned from operations.

Sales Volume			
Under $7 Mil	$7 Mil to $35 Mil	Over $35 Mil	**Liquidity Ratios**
1.6	2.0	2.0	Current Ratio
.7	1.1	1.2	Quick Ratio
20.9	33.0	11.0	Cash to Current Liabilities
46.1	34.4	53.6	A/P to Inventory
			Earning Power Ratios
16.0%	7.5%	14.8%	EBIT to Total Assets
5.8	2.8	3.3	Times Interest Earned

PRODUCTIVITY RATIOS

Accounts Receivable Management

AVERAGE COLLECTION PERIOD = Accounts Receivable/(Net Sales/365 days)

Extending some sort of credit to customers is a part of life in business today. Extending credit, however, creates a cash inflow lag. The Average Collection Period shows the size of Accounts Receivable relative to annual credit sales revenue. The longer the collection period, the larger the Accounts Receivable balance which must be financed.

Time is the essence of the matter here. Managers are most concerned about how long it takes on average to turn its receivables into cash. Credit policies and a firm's ability to reduce the collection period must, of course, be evaluated relative to selling strategies and customer relations.

Inventory Management

INVENTORY TURNOVER = Cost of Goods Sold/Average Inventory

To sell products a business must have a stock of products on hand and ready for delivery to its customers. When a company buys materials, its inventory is increased by the cost of the goods. When the final products are sold, this cost is removed from the asset account and charged to Cost of Goods Sold expense. Inventory Turnover then measures the average number of times a company sells out its entire stock each year.

SALES TO INVENTORY = Net Sales/Average Inventory

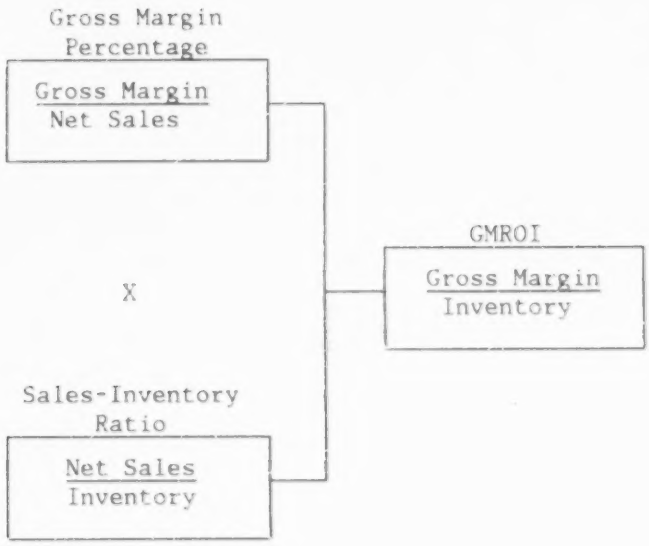
This ratio compares sales at market value to inventory at purchase cost. The Sales to Inventory ratio is an excellent measure of inventory productivity because it demonstrates how many dollars in sales a business generates for each dollar of inventory investment. A typical TMA member, with a ratio of 7.1, generates $7.10 in sales for each $1.00 invested in inventory.

GROSS MARGIN RETURN ON INVENTORY = Gross Margin/Average Inventory x 100%

Gross Margin Return On Inventory (GMROI) enables a manager to make merchandise decisions about the product mix to offer. Notice in the model on the next page that GMROI may also be calculated by multiplying gross margin by the Sales To Inventory ratio. In simplest terms, GMROI demonstrates that there are two ways to improve the merchandising performance of an individual item, category or department. The first way is to improve profit, as measured by the gross margin percentage. The second is to invest dollars in inventory more productively, as measured by the Sales To Inventory ratio.

Accounts Receivable Management	All Firms	High Profit Firms	Publicly Held Firms	Privately Held Firms
Average Collection Period (Days)	62	52	62	65
Inventory Management				
Inventory Turnover (Times)	4.1	5.7	4.2	4.0
Sales to Inventory (Times)	7.1	11.3	7.4	6.8
GMROI	242.7%	540.7%	324.5%	224.1%
Employee Productivity				
Sales per Employee	$ 110,120	$ 199,510	$ 106,130	$ 112,000
Sales per Salesperson	$4,178,080	$4,824,720	$6,716,630	$2,974,810

THE GMROI CONCEPT



Employee Productivity

SALES PER EMPLOYEE = Net Sales/Total Full-Time Equivalent Employees

As was discussed in the Income Statement section of this report, employee payroll is the largest operating expense a business encounters. Therefore, employee productivity becomes a crucial factor when analyzing ways to improve profitability. The more successful firms are able to generate approximately 80 percent more sales per employee than a typical company. Even so, payroll expense as a percentage of sales is essentially the same for high performance businesses as for the typical firm. This simply means that successful companies make more productive use of one of their greatest resources--their employees.

SALES PER SALESPERSON = Net Sales/Total Salespeople

Salespeople for large companies were more productive than representatives for smaller firms. Large firms are more visible in the marketplace and attract business partially because they are a known entity with whom customers are familiar. This no doubt helps a salesperson's credibility and aids in making the sale.

Sales Volume			
Under $7 Mil	$7 Mil to $35 Mil	Over $35 Mil	**Accounts Receivable Mgmt.**
44	58	87	Average Collection Period
			Inventory Management
3.2	3.4	4.6	Inventory Turnover
4.9	5.6	9.0	Sales to Inventory
181.8%	176.4%	407.0%	GMROI
			Employee Productivity
$145,000	$ 74,800	$ 148,340	Sales per Employee
$547,650	$3,851,000	$6,208,400	Sales per Salesperson

ADVERTISING PROFILE

ADVERTISING EXPENDITURES

Advertising is one of the strongest factors in developing a successful image, either for a specific toy or for a company as a whole. If the advertising can correctly portray the image the firm is trying to convey, it can greatly enhance the firm's market position.

In reviewing the advertising expenditures below, there are few surprises to be found. Expenditure patterns have been relatively stable, with a slight shift appearing in favor of magazine advertising in 1984. The bulk of the spending remains in television, however, particularly for the large publicly held firms. Smaller companies continue to concentrate on magazines, and to a lesser extent, direct mail. As has historically been the case, the newspaper, radio, and outdoor media enjoy little popularity with toy manufacturers.

Advertising Expenditures By Type of Medium	All Firms	High Profit Firms	Publicly Held Firms	Privately Held Firms
Spot or Local Television	20.4%	30.9%	31.9%	16.5%
Network Television	14.0	7.4	17.3	12.8
Magazines	29.7	41.7	23.6	31.8
Newspapers	8.2	2.1	10.1	7.6
Radio	.2	.1	.4	.1
Outdoor	.1	.4	.1	.1
Direct Mail	4.9	.4	.2	6.5
Other	22.5	17.0	16.4	24.6
	100.0%	100.0%	100.0%	100.0%
Percent of Companies Providing Co-op Advertising	81%	93%	93%	76%
Co-op Reimbursement Policy				
Dollar Sales Volume	93.8%	85.7%	100.0%	91.2%
Unit Sales Volume	2.1	.0	.0	2.9
Other	4.2	14.3	.0	5.9
	100.0%	100.0%	100.0%	100.0%
Co-op Reimbursement Rate				
1%	11.4%	16.7%	7.7%	12.9%
2%	45.5	50.0	69.2	35.5
3%	25.0	25.0	15.4	29.0
4%	6.8	.0	7.7	6.5
5% or more	11.3	8.3	.0	16.1
	100.0%	100.0%	100.0%	100.0%

CO-OP ADVERTISING

Eighty percent of the firms surveyed indicated they provided some measure of co-operative advertising dollars to their customers. While a two percent reimbursement rate is still most often employed, particularly by very large firms, rates are being pushed higher as co-op funding becomes more competitive. In 1984, the 3% rate gained popularity virtually across the board, most notably in the $7 to $35 million sales size category. The smallest firms, with only 60% of them providing any funds at all, nevertheless felt the pressure to increase reimbursement rates most strongly. One out of five of these smaller firms provided a rate of reimbursement of 5 percent or more.

Sales Volume			
Under $7 Mil	$7 Mil to $35 Mil	Over $35 Mil	Advertising Expenditure By Type of Medium
6.7%	17.4%	42.1%	Spot or Local Television
9.6	3.3	37.1	Network Television
40.8	37.8	13.1	Magazines
8.6	6.1	4.8	Newspapers
.0	.1	.5	Radio
.4	.0	.1	Outdoor
14.6	.5	.2	Direct Mail
19.3	34.8	2.1	Other
100.0%	100.0%	100.0%	
			Percent of Companies
60%	95%	94%	**Providing Co-op Advtg.**
			Co-op Reimbursement Policy
77.8%	94.7%	100.0%	Dollar Sales Volume
11.1	.0	.0	Unit Sales Volume
11.1	5.3	.0	Other
100.0%	100.0%	100.0%	
			Co-op Reimbursement Rate
11.1%	18.8%	6.7%	1%
22.2	37.5	73.3	2%
33.3	31.3	20.0	3%
11.1	12.5	.0	4%
22.3	.0	.0	5% or more
100.0%	100.0%	100.0%	

CUSTOMER PROFILE

SALES BY TYPE OF CUSTOMER

Toy manufacturers participating in this year's survey continue to rely on the same channels as in previous years for distribution of their products. Sales to discount stores and toy stores together accounted for over 50 percent in 1984. As might be expected, the larger discount stores more often buy direct which accounts for the higher sales to this group by large manufacturers. The small, lesser known firms, who must rely more heavily on wholesalers to distribute their products, sold almost 20 percent of their output to this channel.

Sales By Type of Customer	All Firms	High Profit Firms	Publicly Held Firms	Privately Held Firms
Wholesalers	13%	16%	8%	14%
Discount Stores (K mart, Target, etc.)	28	29	34	26
Department Stores	5	3	2	6
General Merchandise Chains (Sears, Penneys, Wards)	11	13	11	11
Toy Stores	24	20	22	25
Variety Stores	4	3	5	4
Catalog Showrooms	5	6	9	4
Other Retail Stores	10	10	9	10
	100%	100%	100%	100%
Percent of Sales on Extended Dating (90 Days or More)	50%	55%	58%	50%

EXTENDED DATING

Fifty percent of all sales were on extended dating of 90 days or more. This, of course, reflects the long lead time necessary to prepare for the Christmas season.

Sales Volume			
Under $7 Mil	$7 Mil to $35 Mil	Over $35 Mil	Sales By Customer
18%	12%	10%	Wholesalers
22	36	33	Discount Dept. Stores (K mart, Target, etc.)
4	8	3	Department Stores
9	11	12	General Merchandise Chains (Sears, Penneys, Wards)
27	14	23	Toy Stores
3	5	4	Variety Stores
4	4	10	Catalog Showrooms
13	10	5	Other Retail Stores
100%	100%	100%	
40%	37%	55%	Percent of Sales on Extended Dating (90 Days or More)

DETERMINANTS OF PROFITABILITY

One of the most important reasons for conducting an Operating Results Survey is to determine what makes high performance firms more successful than a typical company. This section of the report will examine operating characteristics that contribute to high profitability.

First of all, what type of results should a company be able to achieve? In order to answer that question, one must consider the return on investment that could be earned on risk-free investments such as government securities. Then you must add to that rate an additional increment of return which takes into consideration the risk associated with your business investment. The resulting rate of return is the minimum Return on Net Worth which should be attained.

With that in mind, consider the performance of TMA members last year. Of those surveyed the typical firm achieved only a 15.7 percent Return on Net Worth. High profit firms, however, managed an impressive 43.2 percent return. High performance companies for the purpose of this report were those in the upper 25th percentile for Return on Assets. Return on Assets is the best measure of productivity as it encompasses everything invested in the business. As the high performance group consists of one of every four TMA members participating in the survey, the high performance figures are realistic goals for most, if not all, toy manufacturers.

In the section describing the Strategic Profit Model, we found that a business manager has three avenues to improve RONW: profit margin management, asset management, and leverage management. The high performance group of companies achieved their lofty results by earning a higher profit margin while maintaining a slightly lower financial leverage. The lower leverage means that most companies in this elite group had a more stable financial condition and therefore less need to borrow funds. This is, no doubt, due to better earnings in prior years, enabling the high performance companies to retain profits in the business and reduce reliance on outside capital. This also reduces interest expense, a key factor in increasing profit margin. In manipulating the key areas to improve RONW, the high performance firms traded lower financial leverage for a higher profit margin.

The single largest factor enabling firms to achieve the higher profit margin was earning over 8 percentage points more of gross profit than the typical company. Gross profit margin, of course, is the difference between the price a company sells things for and the cost to make the product. Some products represent opportunities to increase gross profits because they are blind items and/or are slow moving items. Selectively raising gross margin on these products enables a firm to remain competitive on "hot" product categories and still improve profits.

Inventory control also proved to be a key factor in reaching higher levels of profitability. Notably, the fast track companies turned over their inventory at a faster pace (4.1x vs. 5.7x). The impact of the higher inventory turnover is that it reduces the reliance on outside capital to finance excess inventory. The sales to inventory ratio exhibits clearly the higher profitability involved; high profit firms produced $4.30 in sales for every dollar invested in inventory compared to just $7.10 produced by the typical firm.

The third area in which the high profit companies excel is that of accounts receivable management. By collecting these funds more quickly than their peers, they are able to reduce their need for outside funding and can take advantage of discounts offered. Lower requirements for outside financing mean lower interest expense.

AN ACTION PLAN

Given the results in this report, where should a company concentrate its efforts to improve performance? Based on the factors in this survey, the following three areas should be addressed:

Gross Margin--Without a gross margin that is adequate enough to cover operating expenses plus earn a profit, a company will never achieve success. Most companies should be able to improve gross margin one percentage point in a single year.

Inventory Utilization--An improvement in Inventory Turnover by one-half turn per year should be achievable by most firms.

Accounts Receivable Management--A decrease in the Average Collection Period of five days is a reasonable target.

The extended Strategic Profit Model on the next page is a more detailed look at how the income statement and balance sheet entries interact to influence Return on Net Worth. In the example, we show the present financial performance for a typical $10 million company in the top half of each box. Then we make 3 key changes; gross margin is increased by 1 percent, inventory turnover increases from 4.6 turns to 5.1, and the collection period is reduced from 62 to 57 days. The results of these changes are shown in the lower half of each box. This analysis assumes that two-thirds of a manufacturer's expenses are fixed and one-third are variable. Variable expenses, such as sales commissions for example, change as sales change for example. Fixed expenses remain the same over a reasonable range of sales. It also assumes that additional profits are kept in net worth as retained earnings.

These changes are enough to substantially improve the Return on Net Worth for a typical TMA member and are reasonable expectations for one year. By accomplishing similar improvements each year, a typical company will move toward high performance results.

Present Condition

Income Statement

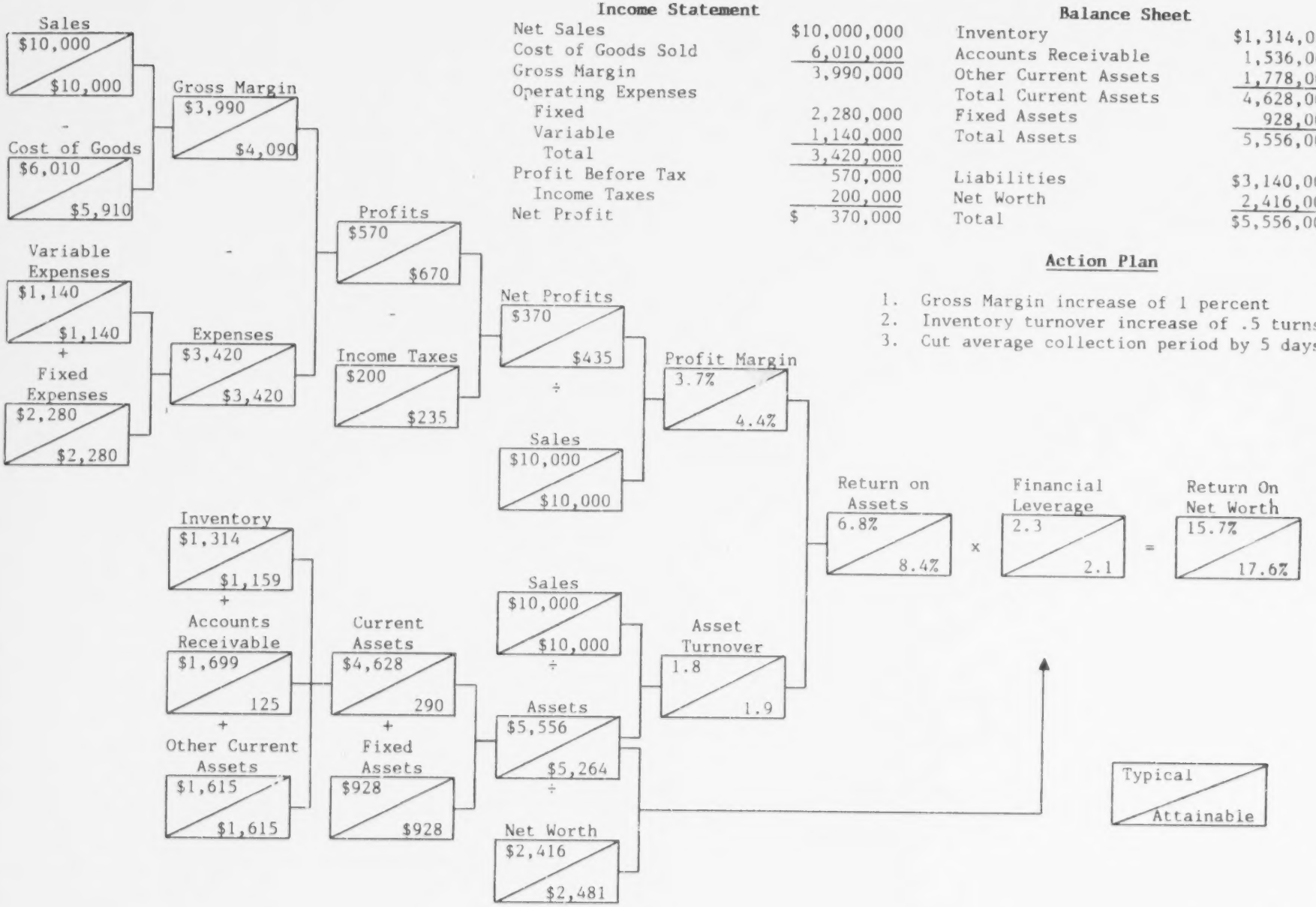
Net Sales	$10,000,000
Cost of Goods Sold	6,010,000
Gross Margin	3,990,000
Operating Expenses	
Fixed	2,280,000
Variable	1,140,000
Total	3,420,000
Profit Before Tax	570,000
Income Taxes	200,000
Net Profit	$ 370,000

Balance Sheet

Inventory	$1,314,000
Accounts Receivable	1,536,000
Other Current Assets	1,778,000
Total Current Assets	4,628,000
Fixed Assets	928,000
Total Assets	5,556,000
Liabilities	$3,140,000
Net Worth	2,416,000
Total	$5,556,000

Action Plan

1. Gross Margin increase of 1 percent
2. Inventory turnover increase of .5 turns
3. Cut average collection period by 5 days



OPERATING TRENDS

The following tables summarize the key operating percentages for the past six years as reported by participating members. The operating trends were compiled from information furnished by the current year's cooperating members, some of whom may not have participated in prior years' projects.

SALES INCREASES - Percent Change vs. Prior Year Sales

Annual Sales	1979	1980	1981	1982	1983	1984
Under $7 Million	113.6	19.7	193.4	-5.5	31.6	18.1
$7 to $35 Million	18.8	2.7	9.8	-5.5	8.9	3.5
Over $35 Million	25.3	9.9	13.8	-.1	0.0	29.6
All Companies	24.6	9.0	13.5	-.6	9.8	16.7

GROSS PROFITS - Percentage of Sales

Annual Sales	1979	1980	1981	1982	1983	1984
Under $7 Million	57.5	40.5	39.0	40.2	41.0	41.0
$7 to $35 Million	30.9	30.4	33.1	34.7	34.0	36.2
Over $35 Million	41.8	41.4	43.9	43.4	45.3	44.5
All Companies	40.5	40.3	42.8	39.5	39.6	39.9

OPERATING EXPENSES - Percentage of Sales

Annual Sales	1979	80	1981	1982	1983	1984
Under $7 Million	64.9	88.2	41.9	38.4	35.3	35.0
$7 to $35 Million	22.2	24.5	23.8	27.7	27.3	29.4
Over $35 Million	29.6	31.1	31.2	36.0	34.7	33.1
All Companies	28.8	30.5	30.5	31.9	33.0	31.5

INCOME BEFORE INCOME TAXES - Percentage of Sales

Annual Sales	1979	1980	1981	1982	1983	1984
Under $7 Million	-12.2	-40.1	-8.7	.2	2.8	5.3
$7 to $35 Million	6.9	3.6	6.3	4.7	5.3	4.4
Over $35 Million	10.6	7.8	9.8	3.6	5.3	5.4
All Companies	10.2	7.3	9.3	4.6	4.2	5.7